

VILLAGE OF EASTLAKE
Manistee County, Michigan
51-3030
FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Eastlake	County Manistee
Audit Date June 30, 2004	Opinion Date October 25, 2004	Date Accountant Report Submitted to State: October 25, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

VILLAGE OF EASTLAKE
Manistee County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

October 25, 2004

To the Village Council
Village of Eastlake
Manistee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Eastlake, Manistee County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Eastlake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Eastlake, Manistee County, Michigan as of June 30, 2004, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*, as of July 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

The Management's Discussion and Analysis report of the Village of Eastlake covers the Village's financial performance during the year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

The Village's financial status has improved during the year increasing net assets by \$25,257.51.

The tax base increased approximately 6.46% from the previous year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental and business type activities. The governmental activities include the General Fund, the Major Street Fund and the Local Street Fund. The business type activities include the Park and Launch Fund.

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

General Fund: This fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include revenues and expenditures from building and grounds, legislative, administrative, elections, fire department and department of public works. This fund also contains the majority of the Village's investments which is in certificates of deposit. A savings account is also contained in this fund. Major revenue comes from property taxes, the State of Michigan in the form of Sales tax revenue and equipment rental from the Major and Local streets.

Major Street Fund: This fund is used to record revenues and expenses for the Major(state owned) streets located within the Village. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The fund also includes an initial investment in a certificate of deposit of \$10,000.00. The major expense for this fund is equipment rental for street repair and snow removal.

Local Street Fund: This fund is used to record revenues and expenses for local (Village owned) streets. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The major expense for this fund is equipment rental for street repair and snow removal.

Park and Launch Fund: This fund is a business type fund, whereas the Village leases the property from the Department of Natural Resources. The fund is used to record revenues and expenses for the Eastlake Village Park and Launch. The main source of revenue for this fund comes from camp and launch fees charged. The expenses incurred are for general repair and maintenance of the grounds. Camp fees were raised during the fiscal year for the first time in many years to help cover expenses.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

For the fiscal year ended June 30, 2004, net assets of the Village increased by \$25,257.51 to \$582,454.49.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

For the fiscal year ended June 30, 2004, the fund balance of the General Fund increased by \$23,598.61 to \$205,420.80, the fund balance of the Major Street Fund increased by \$7,475.63 to \$60,900.96, the fund balance of the Local Street Fund increased by \$8,268.44 to \$46,864.99 and the net assets of the Park and Launch Fund decreased by \$3,725.58 to \$14,608.08.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets:

New capital assets totaled \$4,490.85.

Long-Term Debt:

The Village does not have any long-term debt.

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village plans for a future addition to the Maintenance facilities for the storage of sand/salt for winter maintenance due to the relocation of the County Road Commission. Cost of the project is still in the planning stages and funds to finance the project will most likely be requested from the Little River Band of Ottawa Indians Revenue Sharing Board with the Village matching a portion of the request. The Village also maintains a five year plan for both major and local road improvements.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our taxpayers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions regarding this report, please contact Village President, Donald McIntyre at the Village office during the hours of 9:00 a.m. to 3:00 p.m., Monday through Friday.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	294 547 71	12 485 93	307 033 64
Due from State of Michigan	9 814 21	-	9 814 21
Internal balances	8 824 83	(8 824 83)	-
Total Current Assets	<u>313 186 75</u>	<u>3 661 10</u>	<u>316 847 85</u>
NONCURRENT ASSETS:			
Capital Assets	404 994 20	28 720 98	433 715 18
Less: Accumulated Depreciation	(150 334 54)	(17 774 00)	(168 108 54)
Total Noncurrent Assets	<u>254 659 66</u>	<u>10 946 98</u>	<u>265 606 64</u>
TOTAL ASSETS	<u><u>567 846 41</u></u>	<u><u>14 608 08</u></u>	<u><u>582 454 49</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	254 659 66	10 946 98	265 606 64
Unrestricted	<u>313 186 75</u>	<u>3 661 10</u>	<u>316 847 85</u>
Total Net Assets	<u>567 846 41</u>	<u>14 608 08</u>	<u>582 454 49</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>567 846 41</u></u>	<u><u>14 608 08</u></u>	<u><u>582 454 49</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

		Program Revenue	Governmental Activities
			Net (Expense)
			Revenue and
			Changes in Net
	Expenses	Charges for Services	Assets
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	2 605 00	-	(2 605 00)
General government	37 246 61	1 814 50	(35 432 11)
Public safety	8 220 29	-	(8 220 29)
Public works	73 770 70	24 827 49	(48 943 21)
Other	16 941 01	-	(16 941 01)
Total Governmental Activities	138 783 61	26 641 99	(112 141 62)
Business Type Activities:			
Recreation and culture	12 631 58	8 906 00	-
Total Business Type Activities	12 631 58	8 906 00	-
Total Government	151 415 19	35 547 99	(112 141 62)
General Revenues:			
Property taxes			30 113 02
State revenue sharing			99 849 32
Interest			1 318 94
Miscellaneous			9 843 43
Total General Revenues			141 124 71
Change in net assets			28 983 09
Net assets, beginning of year			538 863 32
Net Assets, End of Year			567 846 41

The accompanying notes are an integral part of these financial statements.

<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(2 605 00)
-	(35 432 11)
-	(8 220 29)
-	(48 943 21)
-	(16 941 01)
-	(112 141 62)
<u>(3 725 58)</u>	<u>(3 725 58)</u>
<u>(3 725 58)</u>	<u>(3 725 58)</u>
<u>(3 725 58)</u>	<u>(115 867 20)</u>
-	30 113 02
-	99 849 32
-	1 318 94
-	9 843 43
-	141 124 71
(3 725 58)	25 257 51
<u>18 333 66</u>	<u>557 196 98</u>
<u>14 608 08</u>	<u>582 454 49</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	196 595 97	54 409 15	43 542 59	294 547 71
Due from State of Michigan	-	6 491 81	3 322 40	9 814 21
Due from other funds	<u>8 824 83</u>	<u>-</u>	<u>-</u>	<u>8 824 83</u>
Total Assets	<u>205 420 80</u>	<u>60 900 96</u>	<u>46 864 99</u>	<u>313 186 75</u>
<u>Liabilities and Fund Equity</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>205 420 80</u>	<u>60 900 96</u>	<u>46 864 99</u>	<u>313 186 75</u>
Total fund equity	<u>205 420 80</u>	<u>60 900 96</u>	<u>46 864 99</u>	<u>313 186 75</u>
Total Liabilities and Fund Equity	<u>205 420 80</u>	<u>60 900 96</u>	<u>46 864 99</u>	<u>313 186 75</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 313 186 75

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	404 994 20
Accumulated depreciation	<u>(150 334 54)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 567 846 41

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	30 113 02	-	-	30 113 02
Permits	439 50	-	-	439 50
State revenue sharing	40 377 02	38 762 63	20 709 67	99 849 32
Charges for services	24 827 49	-	-	24 827 49
Rent	1 375 00	-	-	1 375 00
Interest	1 034 36	284 58	-	1 318 94
Miscellaneous	9 843 43	-	-	9 843 43
Total revenues	<u>108 009 82</u>	<u>39 047 21</u>	<u>20 709 67</u>	<u>167 766 70</u>
Expenditures:				
Legislative:				
Village Council	2 605 00	-	-	2 605 00
General government:				
President	2 240 00	-	-	2 240 00
Elections	801 77	-	-	801 77
Clerk	200 00	-	-	200 00
Treasurer	400 00	-	-	400 00
Village hall and grounds	19 454 40	-	-	19 454 40
Public safety:				
Fire protection	7 035 49	-	-	7 035 49
Liquor law enforcement	384 80	-	-	384 80
Public works:				
Department of Public Works	18 545 43	-	-	18 545 43
Street lighting	7 362 46	-	-	7 362 46
Highways and streets	-	21 880 92	22 131 89	44 012 81
Sanitation	3 850 00	-	-	3 850 00
Other:				
Insurance	13 817 43	-	-	13 817 43
Payroll taxes	3 123 58	-	-	3 123 58
Capital outlay	4 590 85	-	-	4 590 85
Total expenditures	<u>84 411 21</u>	<u>21 880 92</u>	<u>22 131 89</u>	<u>128 424 02</u>
Excess (deficiency) of revenues over expenditures	<u>23 598 61</u>	<u>17 166 29</u>	<u>(1 422 22)</u>	<u>39 342 68</u>
Other financing sources (uses):				
Operating transfers in	-	-	9 690 66	9 690 66
Operating transfers out	-	(9 690 66)	-	(9 690 66)
Total other financing sources (uses)	<u>-</u>	<u>(9 690 66)</u>	<u>9 690 66</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>23 598 61</u>	<u>7 475 63</u>	<u>8 268 44</u>	<u>39 342 68</u>
Fund balances, July 1	<u>181 822 19</u>	<u>53 425 33</u>	<u>38 596 55</u>	<u>273 844 07</u>
Fund Balances, June 30	<u>205 420 80</u>	<u>60 900 96</u>	<u>46 864 99</u>	<u>313 186 75</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 39 342 68

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(14 950 44)
Capital Outlay	<u>4 590 85</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 28 983 09

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS
June 30, 2004

	<u>Park and Launch Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>12 485 93</u>
Total Current Assets	<u>12 485 93</u>
NONCURRENT ASSETS:	
Capital Assets	28 720 98
Less: Accumulated Depreciation	<u>(17 774 00)</u>
Total Noncurrent Assets	<u>10 946 98</u>
TOTAL ASSETS	<u>23 432 91</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to other funds	<u>8 824 83</u>
Total Current Liabilities	<u>8 824 83</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	10 946 98
Unrestricted	<u>3 661 10</u>
Total Net Assets	<u>14 608 08</u>
TOTAL LIABILITIES AND NET ASSETS	<u>23 432 91</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS TYPE FUNDS
Year ended June 30, 2004

	<u>Park and Launch Fund</u>
OPERATING REVENUES:	
Charges for Services:	
Service charges	<u>8 906 00</u>
Total Operating Revenues	<u>8 906 00</u>
OPERATING EXPENSES:	
Salaries and wages	6 620 73
Operating supplies	531 60
Professional services	1 012 76
Utilities	545 96
Repairs and maintenance	<u>2 067 53</u>
Total Operating Expenses	<u>10 778 58</u>
Operating Income (Loss) before depreciation	<u>(1 872 58)</u>
Less: Depreciation	<u>(1 853 00)</u>
Change in net assets	(3 725 58)
Net assets, beginning of year	<u>18 333 66</u>
Net Assets, End of Year	<u>14 608 08</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended June 30, 2004

	<u>Park and Launch Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	8 906 00
Cash payments to suppliers for goods and services	(4 157 85)
Cash payments to employees for services	<u>(6 620 73)</u>
Net cash provided (used) by operating activities	<u>(1 872 58)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net borrowings (repayments) with other funds	<u>6 864 22</u>
Net cash provided (used) for noncapital and related financing activities	<u>6 864 22</u>
Net increase (decrease) in cash	4 991 64
Cash beginning of year	<u>7 494 29</u>
Cash End of Year	<u><u>12 485 93</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	(3 725 58)
Depreciation	<u>1 853 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>(1 872 58)</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Eastlake, Manistee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Eastlake. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 4.50 mills, and the taxable value was \$6,705,747.00.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2003, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$254,659.66.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>307,033.64</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	200 000 00
Uninsured and Uncollateralized	<u>108 424 10</u>
Total Deposits	<u>308 424 10</u>

The Village of Eastlake did not have any investments as of June 30, 2004.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business type activities for the current year was as follows:

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
<u>Governmental Activities:</u>				
Land	184 581 60	4 590 85	-	189 172 45
Buildings	19 843 27	-	-	19 843 27
Equipment	<u>195 978 48</u>	<u>-</u>	<u>-</u>	<u>195 978 48</u>
Total	400 403 35	4 590 85	-	404 994 20
Accumulated Depreciation	<u>(135 384 10)</u>	<u>(14 950 44)</u>	<u>-</u>	<u>(150 334 54)</u>
Net Governmental Capital Assets	<u>265 019 25</u>	<u>(10 359 59)</u>	<u>-</u>	<u>254 659 66</u>
<u>Business Type Activities:</u>				
Park and Launch	28 720 98	-	-	28 720 98
Accumulated Depreciation	<u>(15 921 00)</u>	<u>(1 853 00)</u>	<u>-</u>	<u>(17 774 00)</u>
Net Business Type Capital Assets	<u>12 799 98</u>	<u>(1 853 00)</u>	<u>-</u>	<u>10 946 98</u>

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Village does not have a retirement plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 8 – Budget Variances

For the fiscal year ended June 30, 2004, Village expenditures exceeded the budgeted amounts in one activity as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Village hall and grounds	17 700 00	19 454 40	1 754 40
Fire protection	5 400 00	7 035 49	1 635 49
Department of Public Works	18 500 00	18 545 43	45 43
Street lighting	7 000 00	7 362 46	362 46
Sanitation	3 500 00	3 850 00	350 00
Insurance	12 800 00	13 817 43	1 017 43
Capital outlay	2 000 00	4 590 85	2 590 85
Major Street Fund Activity:			
Transfers to Local Street Fund	-	9 690 66	9 690 66
Local Street Fund Activity:			
Highways and streets	17 850 00	22 131 89	4 281 89

Note 9 – Transfers In and Transfers Out

For the fiscal year ended June 30, 2004, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Local Street	9 690 66	Major Street	9 690 66
Total	9 690 66	Total	9 690 66

Note 10 – Building Permits

The Village of Eastlake does not issue building permits. Building permits are issued by the State of Michigan.

Note 11 – Interfund Receivables and Payables

As of June 30, 2004, the Village of Eastlake had the following interfund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	8 824 83	Park and Launch	8 824 83
Total	8 824 83	Total	8 824 83

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	28 000 00	28 000 00	30 113 02	2 113 02
Permits	50 00	50 00	439 50	389 50
State revenue sharing	36 385 00	36 385 00	40 377 02	3 992 02
Charges for services	17 000 00	17 000 00	24 827 49	7 827 49
Rent	1 000 00	1 000 00	1 375 00	375 00
Interest	1 000 00	1 000 00	1 034 36	34 36
Miscellaneous	4 000 00	4 000 00	9 843 43	5 843 43
Total revenues	<u>87 435 00</u>	<u>87 435 00</u>	<u>108 009 82</u>	<u>20 574 82</u>
Expenditures:				
Legislative:				
Village Council	3 000 00	3 000 00	2 605 00	(395 00)
General government:				
President	2 280 00	2 280 00	2 240 00	(40 00)
Elections	1 000 00	1 000 00	801 77	(198 23)
Clerk	200 00	200 00	200 00	-
Treasurer	400 00	400 00	400 00	-
Village hall and grounds	17 700 00	17 700 00	19 454 40	1 754 40
Public safety:				
Fire protection	5 400 00	5 400 00	7 035 49	1 635 49
Liquor law enforcement	385 00	385 00	384 80	(20)
Public works:				
Department of Public Works	18 500 00	18 500 00	18 545 43	45 43
Street lighting	7 000 00	7 000 00	7 362 46	362 46
Sanitation	3 500 00	3 500 00	3 850 00	350 00
Other:				
Insurance	12 800 00	12 800 00	13 817 43	1 017 43
Payroll taxes	3 500 00	3 500 00	3 123 58	(376 42)
Capital outlay	2 000 00	2 000 00	4 590 85	2 590 85
Total expenditures	<u>77 665 00</u>	<u>77 665 00</u>	<u>84 411 21</u>	<u>6 746 21</u>
Excess of revenues over expenditures	9 770 00	9 770 00	23 598 61	13 828 61
Fund balance, July 1	<u>52 284 00</u>	<u>52 284 00</u>	<u>181 822 19</u>	<u>129 538 19</u>
Fund Balance, June 30	<u>62 054 00</u>	<u>62 054 00</u>	<u>205 420 80</u>	<u>143 366 80</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	32 000 00	32 000 00	38 762 63	6 762 63
Interest	100 00	100 00	284 58	184 58
Total revenues	32 100 00	32 100 00	39 047 21	6 947 21
Expenditures:				
Public works:				
Highways and streets	27 850 00	27 850 00	21 880 92	(5 969 08)
Total expenditures	27 850 00	27 850 00	21 880 92	(5 969 08)
Excess of revenues over expenditures	4 250 00	4 250 00	17 166 29	12 916 29
Other financing sources (uses):				
Operating transfers out	-	-	(9 690 66)	(9 690 66)
Total other financing sources (uses)	-	-	(9 690 66)	(9 690 66)
Excess of revenues and other sources over expenditures and other uses	4 250 00	4 250 00	7 475 63	3 225 63
Fund balance, July 1	36 782 00	36 782 00	53 425 33	16 643 33
Fund Balance, June 30	41 032 00	41 032 00	60 900 96	19 868 96

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	<u>17 000 00</u>	<u>17 000 00</u>	<u>20 709 67</u>	<u>3 709 67</u>
Total revenues	<u>17 000 00</u>	<u>17 000 00</u>	<u>20 709 67</u>	<u>3 709 67</u>
Expenditures:				
Public works:				
Highways and streets	<u>17 850 00</u>	<u>17 850 00</u>	<u>22 131 89</u>	<u>4 281 89</u>
Total expenditures	<u>17 850 00</u>	<u>17 850 00</u>	<u>22 131 89</u>	<u>4 281 89</u>
Excess (deficiency) of revenues over expenditures	<u>(850 00)</u>	<u>(850 00)</u>	<u>(1 422 22)</u>	<u>(572 22)</u>
Other financing sources (uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>9 690 66</u>	<u>9 690 66</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>9 690 66</u>	<u>9 690 66</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(850 00)</u>	<u>(850 00)</u>	<u>8 268 44</u>	<u>9 118 44</u>
Fund balance, July 1	<u>30 523 00</u>	<u>30 523 00</u>	<u>38 596 55</u>	<u>8 073 55</u>
Fund Balance, June 30	<u>29 673 00</u>	<u>29 673 00</u>	<u>46 864 99</u>	<u>17 191 99</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2004

Village Council:	
Wages	<u>2 605 00</u>
President:	
Wages	440 00
Transportation	<u>1 800 00</u>
	<u>2 240 00</u>
Elections:	
Wages	180 00
Supplies	<u>621 77</u>
	<u>801 77</u>
Clerk:	
Salary	<u>200 00</u>
Treasurer:	
Salary	<u>400 00</u>
Village hall and grounds:	
Wages	9 178 60
Professional services	597 25
Supplies	1 776 97
Printing and publishing	302 21
Utilities	4 646 91
Repairs and maintenance	2 317 46
Miscellaneous	<u>635 00</u>
	<u>19 454 40</u>
Fire protection:	
Wages	1 484 60
Operating supplies	95 40
Utilities	714 40
Insurance	3 930 84
Repairs and maintenance	<u>810 25</u>
	<u>7 035 49</u>
Liquor law enforcement:	
Wages	<u>384 80</u>
Department of Public Works:	
Wages	12 194 41
Operating supplies	1 444 30
Vehicle operating expenses	1 199 74
Utilities	1 442 82
Repairs and maintenance	<u>2 264 16</u>
	<u>18 545 43</u>
Street lighting:	
Utilities	<u>7 362 46</u>
Sanitation:	
Contractual	<u>3 850 00</u>
Insurance	<u>13 817 43</u>
Payroll taxes	<u>3 123 58</u>
Capital outlay	<u>4 590 85</u>
Total Expenditures	<u>84 411 21</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2004

	<u>M.V.H.- Major Street Fund</u>	<u>M.V.H.- Local Street Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	54 409 15	43 542 59	97 951 74
Due from State of Michigan	<u>6 491 81</u>	<u>3 322 40</u>	<u>9 814 21</u>
Total Assets	<u>60 900 96</u>	<u>46 864 99</u>	<u>107 765 95</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	<u>60 900 96</u>	<u>46 864 99</u>	<u>107 765 95</u>
Total Liabilities and Fund Balances	<u>60 900 96</u>	<u>46 864 99</u>	<u>107 765 95</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

Year ended June 30, 2004

	M.V.H.- Major Street Fund	M.V.H.- Local Street Fund	Total
Revenues:			
State revenue sharing	38 762 63	20 709 67	59 472 30
Interest	284 58	-	284 58
Total revenues	39 047 21	20 709 67	59 756 88
Expenditures:			
Public works – highways and streets:			
Administration:			
Salaries and wages	2 200 00	2 200 00	4 400 00
Routine maintenance:			
Wages	1 917 61	6 208 89	8 126 50
Operating supplies	2 199 07	2 781 64	4 980 71
Equipment rental	14 725 19	10 102 30	24 827 49
Winter maintenance:			
Operating supplies	839 05	839 06	1 678 11
Total expenditures	21 880 92	22 131 89	44 012 81
Excess (deficiency) of revenues over expenditures	17 166 29	(1 422 22)	15 744 07
Other financing sources (uses):			
Operating transfers in	-	9 690 66	9 690 66
Operating transfers out	(9 690 66)	-	(9 690 66)
Total other financing sources (uses)	(9 690 66)	9 690 66	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	7 475 63	8 268 44	15 744 07
Fund balances, July 1	53 425 33	38 596 55	92 021 88
Fund Balances, June 30	60 900 96	46 864 99	107 765 95

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

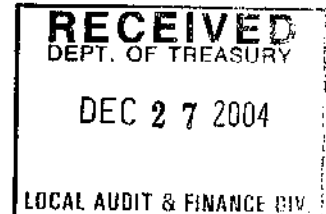
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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 25, 2004

To the Village Council
Village of Eastlake
Manistee County, Michigan



We have audited the financial statements of the Village of Eastlake for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Eastlake in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Eastlake
Manistee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Village of Eastlake began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated June 30, 2004.

To the Village Council
Village of Eastlake
Manistee County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants